



CHUGACH ELECTRIC ASSOCIATION, INC.

Federal Financial Assistance Reports

Year Ended December 31, 2004

CHUGACH ELECTRIC ASSOCIATION, INC.

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**Independent Auditor's Report on Compliance With Requirements
Applicable to Each Major Program and on Internal Control Over
Compliance in Accordance with OMB Circular A-133**

The Board of Directors
Chugach Electric Association, Inc.:

Compliance

We have audited the compliance of Chugach Electric Association, Inc. (Association) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended December 31, 2004. The Association's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Association's management. Our responsibility is to express an opinion on the Association's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Association's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Association's compliance with those requirements.

In our opinion, the Association complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2004.

Internal Control Over Compliance

The management of the Association is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Association's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.



The Board of Directors
Chugach Electric Association, Inc.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the Association as of and for the year ended December 31, 2004, and have issued our report thereon dated February 11, 2005. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the board of directors, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

September 8, 2005

CHUGACH ELECTRIC ASSOCIATION, INC.

Schedule of Expenditures of Federal Awards

Year Ended December 31, 2004

Federal grantor/pass-through grantor grantor program title	Catalog of federal domestic assistance number	Federal expenditures
Denali Commission		
Hope Line Relocation Study	90.100	\$ 54,563
Fire Island Transmission Line and Wind Power Feasibility Studies	90.100	572,831
Total federal awards		<u>\$ 627,394</u>

See accompanying notes to schedule of federal financial assistance.

CHUGACH ELECTRIC ASSOCIATION, INC.
Notes to Schedule of Expenditures of Federal Awards
Year ended December 31, 2004

General

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance programs of Chugach Electric Association, Inc. (Association). The Association's reporting entity is defined in note 1 to the Association's financial statements.

Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting, which is described in note 1 to the Association's financial statements.

CHUGACH ELECTRIC ASSOCIATION, INC.

Schedule of Findings and Questioned Costs

Year ended December 31, 2004

(1) Summary of Auditors' Results

- a. An unqualified independent auditors' report was issued on the financial statements of the Chugach Electric Association, Inc.
- b. No reportable conditions and no material weaknesses in internal control were disclosed in the report on compliance and on internal control over financial reporting.
- c. There was no noncompliance, which is material to the financial statements.
- d. No reportable conditions and no material weaknesses in internal control were disclosed in the report on compliance with requirements applicable to each major program and internal control over compliance.
- e. An unqualified independent auditors' report was issued on compliance for major programs.
- f. Chugach Electric Association Inc. had the following major program:
 - Denali Commission – Fire Island Transmission Line and Wind Power Feasibility Studies, CFDA #90.100
- g. Programs with federal expenditures greater than \$300,000 were identified as Type A programs.
- h. Chugach Electric Association, Inc. did not qualify as a low-risk auditee under Section 530 of OMB Circular A-133.

(2) Financial Statements Findings Section

There were no findings relating to the financial statements reported in accordance with *Government Auditing Standards*.

(3) Federal Award Findings and Questioned Cost Section

There were no findings and questioned cost relating to federal awards.



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**Independent Auditors' Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With Government Auditing Standards**

The Board of Directors
Chugach Electric Association, Inc.:

We have audited the financial statements of Chugach Electric Association, Inc. (Association) as of and for the year ended December 31, 2004, and have issued our report thereon dated February 11, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Association's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Association's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the board of directors, management, federal agencies and pass through entities, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

February 11, 2005